

# City of Detroit

## CITY COUNCIL

IRVIN CORLEY, JR.  
FISCAL ANALYST  
(313) 224-1076

FISCAL ANALYSIS DIVISION  
Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 218  
Detroit, Michigan 48226  
FAX: (313) 224-2783  
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN  
ASSISTANT FISCAL ANALYST  
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: July 18, 2007

RE: Wolinski & Co. CPA, Contract 2722559, Change Order No. 01  
**(Recommend Approval) Line Item 49 on Today's Calendar**

Attached are responses from Mike Bridges, Chief Accounting Officer to additional questions Council members and Fiscal Analysis had regarding the Wolinski & Co. change order number 1 that is currently before your Honorable Body for approval. We feel that the responses are satisfactory.

Council should also note that the City's external auditor, KPMG LLP, is under contract to review the City's 2006-07 Comprehensive Annual Financial Report (CAFR). According to Mr. Bridges, Wolinski has worked well with Finance to provide technical expertise on extremely complicated transactions, such as the POCs, and other accounting and reporting requirements recently required by the Government Accounting Standards Board (GASB). KPMG has well received and appreciated the assistance provided the City by Wolinski. The change order would renew the contract with Wolinski and keep institutional knowledge available to Finance as it prepares for the development of the 2006-07 CAFR.

Mr. Bridges also indicated Wolinski would assist Finance in developing technical expertise in-house as it ramps up its staff to restore some accounting positions that were cut and assist in the preparation of the 2007-08 CAFR.

We recommend approval of the Wolinski & Co. CPA change order number 1.

Also attached is our initial report on the change order request.

### Attachments

Cc: Council Divisions  
Auditor General's Office  
Roger Short, Chief Financial Officer  
Mike Bridges, Chief Accounting Officer  
Pamela Scales, Budget Director  
Kandia Milton, Mayor's Office

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CITY OF DETROIT  
FINANCE DEPARTMENT  
ACCOUNTS DIVISION

801 CAY Municipal Center  
PHONE (313) 224-3276  
FAX (313) 628-2717  
WWW.CI.DETROIT.MI.US

**To:** Irvin Corley, Jr., Fiscal Analysis Director  
**From:** Michael Bridges<sup>MB</sup>, Chief Accounting Officer  
**Date:** July 17, 2007  
**Re:** ***RESPONSES TO CITY COUNCIL QUESTIONS REGARDING WOLINSKI & CO. CONTRACT***

I am providing responses to the questions City Council has asked in regards to the approval of the Wolinski & Co. contract.

**Question 1:**

"List the individuals who have worked for the City under the contract. Might as well include their titles."

**Response to Question 1:**

The individuals who have worked for the City include:

Marina Houghton, CPA (***President***); Cathy Carlino, CPA, (***Vice President***), Charlie Jaskoliski, CPA, (***Technical Reviewer***); Ricky Brown, (***Manager***); Mary Ellen Burke, MBA, (***Senior Accountant***); Andrea L. Shelton, (***Senior Accountant II***).

**Question 2:**

"Why was this contract not competitively bid?"

**Response to Question 2:**

The initial contract was competitively bid.





***Wolinski & Co. Contract***  
***Pg. 2***

**Question 3:**

"Justify the doubling of the contract, \$250,000 original, increase \$250,000, to a total of \$500,000."

**Response to Question 3:**

This contract is a contract renewal for Wolinski & Co to provide services for the closing of the June 30, 2007 Fiscal Year. Therefore, this contract is for the same amount as the original contract for Wolinski & Co to provide services for the closing of the June 30, 2006 Fiscal Year.

**Question 4:**

"Is this a renewal or extension?"

**Response to Question 4:**

As stated in response to question 3, this contract is a contract renewal for Wolinski & Co to provide services for the closing of the June 30, 2007 Fiscal Year.

**Question 5:**

"Please list the GASB statements that Wolinski has given the City guidance on the past, also list the new GASB statements that the city will have to comply with during the June 30, 2007 closing. We will assume that Wolinski will provide guidance on the new GASB statements."

**Response to Question 5:**

The GASB statements that the city will have to comply with during the June 30, 2007 closing are:

They have given guidance to the Finance Department on

- GASB 40 - Deposit and Investment Risk Disclosures
- GASB 42 - Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries





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***Wolinski & Co. Contract***  
***Pg. 3***

- GASB 47 - Accounting for Termination Benefits  
Accounting for the Sale of the Greek Town Garage
- GASB 14 - The Financial Reporting Entity

For the closing of fiscal year, June 30, 2007 the city needs to implement:

- GASB 45 - Accounting and Financial Reporting by Employers for Post employment  
Benefits Other Than Pensions

**Question 6:**

"List any other specific items that Wolinski has given guidance on or done under the existing contract. Those items you can think of that they will do during the next year."

**Response to Question 6:**

Wolinski has given the City extensive guidance on the accounting and financial reporting of the \$1.4 Pension Obligation Certificates that were issued during fiscal year 2004-2005. Also, they have given guidance to the City on streamlining and automating the financial statement preparation process.

If you have any questions please let me know.

Thank you.

CC: Roger Short, Chief Financial Officer  
Jerry Porkorski, Analyst  
Kandia Milton, Mayor's Office  
Arese Robinson, Mayor's Office

# City of Detroit

## CITY COUNCIL

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ANNE MARIE LANGAN  
ASSISTANT FISCAL ANALYST  
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley Jr., Director *leg*

DATE: July 13, 2007

RE: Wolinski & Co. CPA, Change Order No. 01

Council Member Alberta Tinsley-Talabi requested that Council be provided addition information on the services that Wolinski & Co. CPA, provides to the City covered by contract 2722559. The administration has submitted Change Order No. 01 for \$250,000, and this increases the total contract to a not to exceed \$500,000 amount. The following information is provided to address Council Member Tinsley-Talabi's request.

The following information is taken directly from the Scope of Services for Change Order 01.

**Project Description:** Perform support services to the City of Detroit, Michigan to assist personnel in the timely completion and issuance of the Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2007.

### **Project Objective/Deliverables**

Prepare position papers for non-routine accounting transactions and the implementation of required GASB (Government Accounting Standards Board) Pronouncements

Perform technical quality review of CAFR drafts

Draft financial statements (including footnotes)

Automate steps to produce a computerized comprehensive annual financial report

Prepare GASB 40 Statement footnote (This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Attached is a summary of Statement No. 40 Deposit and Investment Risk Disclosure.)



Prepare Training Manual for GASB 40 footnote for approval by August 31, 2007

In plain words, Wolinski & Co. CPA provides consulting accounting firm services to the Finance Department. In the pre-Enron day's, the outside firm hired to conduct the annual financial audit and CAFR, could be consulted and would provide guidance on accounting matters, treatment of transactions, and interpretation of GASB statement requirements. The outside auditing firm assisted in preparing necessary statements, footnotes, etc.

In the post-Enron and other financial reporting scandals, passage of Sarbane-Oxley Law, a firm conducting the annual audit is prohibited from assisting in the preparation of statements, footnotes or any other item that must be audited. They are prohibited from producing and then auditing any CAFR related items.

The use of an accounting firm for services that Wolinski & Co. CPA, provide can be expected to continue until the City of Detroit can attract and retain individuals into the accounting series that have the same level of expertise as is available from accounting firms. This would require the paying of competitive rates with outside accounting firms for CPA certified individuals, a willingness to pay for continuing education and association membership and conference attendance to allow the employee to maintain an up-to-date level of expertise as the accounting rules and standard change.

Even with a comprehensive and competitive recruitment and retention effort by the City, total elimination of accounting firm services may not be possible. It may not be cost effective for the City to maintain expertise on all accounting rule issues. The recent sale of the pension obligation certificates (POCs) provides an example of where use of an outside firm's expertise may be better than attempting to maintain in-house expertise. This was a once or twice event that had very complicated and significant accounting implications.

If the City had to identify an individual to develop the knowledge base and expertise in-house, rather than using the assistance of Wolinski & Co. CPA, or similar firm, the time and cost to properly record that transaction would have been much greater. The outside firms are in a much better position to develop this specialize expertise for this type of transaction and use the expertise for multiple clients. Where the City, after the original event and recording of the transaction, would not have the same opportunity to utilize the specialize knowledge related to the recoding of these specialized transactions, such as the POCs. This same situation happens each time a GASB statement is issued. It takes a lot of resources, both employee and financial, to understand and properly reflect the GASB requirement in your financial records, but after the first year or two, the recording of the transactions become more routine.

Council may want to ask Roger Short, Chief Financial Officer, for his thoughts on if and when he envisions being able to eliminate the use of consulting accounting firm services, such as those provided by Wolinski & Co. CPA.

Attachment

cc: Council Divisions  
Auditor General's Office  
Roger Short, Chief Financial Officer  
Mike Bridges, Chief Accounting Officer  
Pamela Scales, Budget Director  
Kandia Milton, Mayor's Office





Governmental Accounting Standards Board

## Summaries / Status

### **Summary of Statement No. 40 *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* (Issued 3/03)**

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The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed.

The Board reconsidered the disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Portions of that Statement are modified or eliminated. The custodial credit risk disclosures of Statement 3 are modified to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Statement 3 disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments or the requirements for reporting certain repurchase agreements and reverse repurchase agreements, and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged.

#### **How the Changes in This Statement Improve Financial**



## Reporting

Deposit and investment resources often represent significant assets of governmental, proprietary, and fiduciary funds. These resources are necessary for the delivery of governmental services and programs, or to carry out fiduciary responsibilities. This Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Board believes that there are risks inherent in all deposits and investments, and it believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions.

The Board adopted fair value accounting for most investments in Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk. In order to understand the measurement of investments at fair value, the timing of cash flows (including investment time horizons) and investment risks need to be communicated.

This Statement results from the Board's formal reviews of its existing standards. These reviews—part of the Board's strategic plan—are designed to evaluate the continuing usefulness of current requirements. The reduction of existing custodial credit risk disclosures follows from federal banking reforms adopted since the release of Statement 3.

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Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

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